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CORPORATION FILE

RICH'S inc. ANNUAL REPORT

fiscal year ended January 29, 1966

RICH'S inc.

Atlanta born
Atlanta owned
Atlanta managed

FINANCIAL HIGHLIGHTS

From the Earnings Statement	*Fifty-two weeks ended January 29, 1966*	*Fifty-two weeks ended January 30, 1965*
Net Sales	$131,153,025	$116,013,903
Percent Sales Increase	13.0%	10.0%
Earnings Before Taxes	12,942,320	11,825,574
Percent of Sales	9.9%	10.2%
Earnings After Taxes	6,644,320	5,627,574
Percent of Sales	5.1%	4.9%
Earnings per Share of Common	2.47	2.09
Common Dividends Paid	2,675,623	2,398,059
Dividends Paid per Share of Common	1.00	.90
Gain from Sale of Property, less applicable taxes on income	—	820,842
Earnings Retained in Company	3,941,443	4,005,919
Percent Return on Common Equity	14.03%	12.48%
From the Statement of Financial Condition		
Working Capital	$ 38,675,565	$ 36,938,780
Ratio of Current Assets to Current Liabilities	2.9	3.4
Expenditures for Property and Equipment	7,211,320	2,927,606
Common Shareholders' Investment	51,230,133	47,161,817
Book Value per Share of Common	19.13	17.69
Number Common Shares Outstanding	2,677,886	2,666,166
Number Common Shareholders	4,354	4,006

Transfer Agent
Trust Company of Georgia Atlanta, Georgia

Registrar
Citizens and Southern National Bank Atlanta, Georgia

Legal Counsel
King and Spalding Atlanta, Georgia

TO THE STOCKHOLDERS OF RICH'S, INC.

The year 1965 proved to be another successful year for your company. New records in sales and earnings were again established. Sales of $131,153,000 were $15,139,000 over 1964, an increase of 13.0%. Part of this sales increase can be attributed to the opening of two new branch stores during the year, North DeKalb at the end of July, 1965, and Greenbriar early in September, 1965. However, in spite of the opening of these stores, the downtown store, as well as each of the existing branches, enjoyed sales increases.

Net income for the year 1965 also reached an all-time high of $6,644,000, an increase of 18.1% over the figure for 1964 of $5,628,000. These earnings amounted to $2.47 a share, which is 38¢ over last year's per share earnings of $2.09.

Dividends

In February, 1966, the Board of Directors declared a quarterly dividend, payable on May 2nd of this year, of 27½¢ per common share, which, on an annual basis, would amount to $1.10 per share, compared to $1.00 for the year 1965. Thus, we have increased dividends for the ninth consecutive year.

Preferred Stock

On October 1, 1965, your company called in for redemption all of the remaining outstanding preferred stock at the call price of $102.50 per share. The funds used for redemption, amounting to $1,111,202, came from a portion of the proceeds arising from the sale of $4,000,000 of convertible debentures in February, 1965. The balance of the proceeds of this loan were used in connection with the opening of two new branches.

Branch Stores

Your company added 320,000 square feet of space during the year with the opening of the branches in the North DeKalb and Greenbriar shopping centers. We own the building, fixtures, and equipment as well as the land on which the North DeKalb store rests, while very satisfactory rental terms have been effected at the Greenbriar store. Our sales record in both of these stores has exceeded our expectations. These stores are well-staffed, with a full complement of experienced people, and they give promise of continued growth and contribution toward our increased volume and profit. During the fall season, the sales from these two stores have increased our share of the metropolitan Atlanta department store market, without diverting any significant volume from our downtown store and our three older branches.

Additional New Construction

During 1965, we completed the addition of two floors to our downtown customers' parking facility, thereby providing total spaces for 1,250 cars. For customer convenience, as many as 6,500 cars per day can be handled.

Richard H. Rich
Chairman of the Board

Harold Brockey
President

Construction is now under way on a six-story addition to the downtown service building adjacent to the Store for Homes. This facility is being constructed with the latest material-handling equipment to provide a smooth supply of merchandise to all six Rich's stores.

Retirement Plan

Your Board of Directors approved the updating of its Employee Retirement Plan. The most significant change was directed at increasing the minimum retirement payments to a large majority of our employees. We believe that the revised plan is in keeping with existing retail practices. The contribution to the retirement plan for 1965 was $810,000 compared with $442,000 in 1964.

Electronics

In line with the company's policy of utilizing modern equipment and methods which match its progressive merchandising policy, a decision was made during 1965 to equip all of our six stores with new sales registers. These registers are designed to be compatible with our computer installation. They will speed up customer service, improve the accuracy and speed of our statements to our customers, and will provide our managers with faster and more accurate information. During the year 1965, these registers were installed in our Belvedere and North DeKalb stores, and the installation will be completed in the remaining four stores about mid-year, 1966.

Organization

The year 1965, although a most successful and profitable one, also provided a real test for our loyal and talented organization because of the challenges presented by the opening of two branch stores within six weeks of each other, in addition to the continued operation of the four existing stores. Our entire organization is to be complimented upon the efficiency and effectiveness with which they carried this unusual burden. We are sure that you will join us in expressing to our managers and to our entire organization our deep appreciation for the unusual dedication and professionalism with which this work was accomplished.

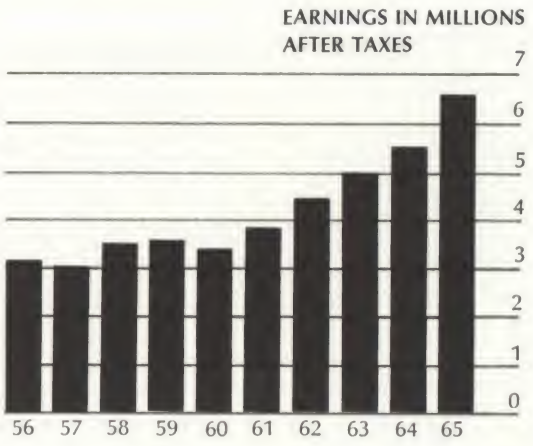
The early weeks of 1966 give promise of another fine and successful year at Rich's, and there is every evidence that the growth of the economy of the nation, and particularly of Atlanta, will continue at an accelerated rate during the coming year. We feel that our organization is well-geared to make the most of this opportunity and to provide us with a very successful operation in 1966. Meanwhile, we are all actively at work planning for an outstanding 1967, during which we will celebrate Rich's 100th Anniversary Year.

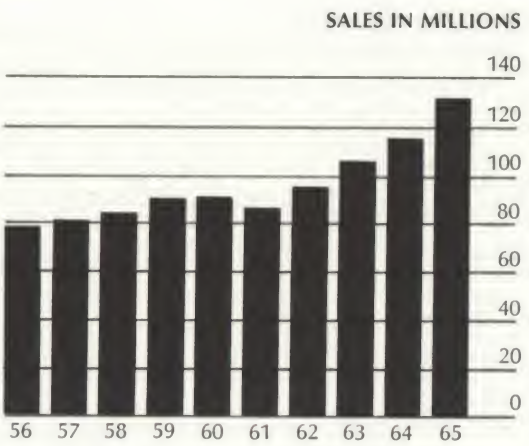
Harold Brockey
President

Richard H. Rich
Chairman of the Board

April 11, 1966

TEN YEAR HISTORY OF
SALES, NET EARNINGS AND COMMON STOCKHOLDERS' INVESTMENT





NOTE: KNOXVILLE STORE RESULTS INCLUDED IN FISCAL YEARS 1956-60

Fiscal Year Ended	*Net Sales* (000)	*Net Earnings Before Income Taxes* (000)	*Net Earnings After Income Taxes* (000)	*Net Earnings Per Common Share* (Note)	*Dividends Per Common Share* (Note)	*Common Stockholders' Investment* (000)	*Common Stockholders' Investment Per Share* (Note)
January 29, 1966	131,153	12,942	6,644	2.47	1.00	51,230	19.13
January 30, 1965	116,014	11,826	5,628	2.09	0.90	47,162	17.69
February 1, 1964	105,434	10,905	4,961	1.85	0.80	43,032	16.20
February 2, 1963	95,439	9,881	4,432	1.65	0.73	40,053	15.17
February 3, 1962	85,100	8,324	3,816	1.43	0.67	37,115	14.18
January 28, 1961	92,726	6,709	3,270	1.23	0.60	34,999	13.47
January 30, 1960	92,511	7,745	3,569	1.36	0.55	32,248	12.57
January 31, 1959	83,149	7,367	3,438	1.32	0.53	29,995	11.81
February 1, 1958	80,103	6,610	3,025	1.18	0.50	27,761	11.10
February 2, 1957	78,693	6,286	2,848	1.11	0.47	25,830	10.46

Note — Based upon number of shares outstanding on January 30, 1965 and January 29, 1966 for the years then ended; for earlier years based upon number of shares outstanding at end of each year after adjustment for the three-for-two stock split in year ended January 30, 1965.

COMPARATIVE STATEMENTS OF NET EARNINGS AND RETAINED EARNINGS

	Fifty-Two Weeks Ended January 29, 1966	*Fifty-Two Weeks Ended January 30, 1965*
Net Sales, including leased departments	$131,153,025	$116,013,903
Costs and Expenses (Note F):		
Cost of goods sold and expenses, exclusive of items listed below	$112,262,524	$ 99,342,302
Depreciation and amortization	2,189,889	1,859,848
Repairs and maintenance	882,548	796,118
Taxes — other than taxes on income	1,670,927	1,431,957
Interest	653,488	502,782
Contribution to retirement plan	809,113	441,783
	$118,468,489	$104,374,790
	$ 12,684,536	$ 11,639,113
Miscellaneous Revenues less Expenses	257,784	186,461
Earnings Before Taxes on Income	$ 12,942,320	$ 11,825,574
Federal and State Taxes on Income (Note A)	6,298,000	6,198,000
Net Earnings	$ 6,644,320	$ 5,627,574
Special Item—Gain from sale of property, less applicable taxes on income	—	820,842
Net Earnings and Special Item	$ 6,644,320	$ 6,448,416
Less Cash Dividends Paid:		
Preferred Stock — $2.50 in 1966, $3.75 in 1965	27,254	44,438
Common Stock — $1.00 in 1966, $.90 in 1965	2,675,623	2,398,059
	$ 3,941,443	$ 4,005,919
Retained Earnings at Beginning of Year	37,472,584	33,466,665
Retained Earnings at End of Year	$ 41,414,027	$ 37,472,584

See notes to financial statements.

RICH'S INC. COMPARATIVE STATEMENTS OF FINANCIAL CONDITION

		January 29, 1966	*January 30, 1965*
ASSETS	**Current Assets:**		
	Cash	$ 3,940,411	$ 2,097,611
	Temporary cash investments	$ 100,000	$ 2,100,000
	Receivables:		
	Customers' regular and installment accounts	$38,851,960	$35,298,070
	Other receivables	293,397	180,731
		$39,145,357	$35,478,801
	Less allowance for doubtful accounts	840,000	790,000
	Net receivables	$38,305,357	$34,688,801
	Merchandise inventories — at lower of cost (first-in, first-out basis) or market, determined principally by the retail method	$15,617,296	$12,780,514
	Prepaid expenses and other assets	$ 699,775	$ 558,896
	Total Current Assets	$58,662,839	$52,225,822
	Property and Equipment — At cost:		
	Land	$ 3,396,617	$ 3,396,852
	Buildings and improvements	26,609,626	23,472,607
	Fixtures and equipment	11,772,610	8,207,044
		$41,778,853	$35,076,503
	Less accumulated depreciation and amortization	13,672,285	11,991,366
		$28,106,568	$23,085,137
		$86,769,407	$75,310,959

LIABILITIES		*January 29, 1966*	*January 30, 1965*
	Current Liabilities:		
	Accounts payable	$ 6,174,474	$ 4,093,848
	Accrued expenses	4,241,450	2,487,089
	Federal and state taxes on income:		
	Current	3,801,350	3,242,105
	Deferred (Reclassified to current—Note B)	5,365,000	5,139,000
	Long-term debt due within one year	405,000	325,000
	Total Current Liabilities	$19,987,274	$15,287,042
	Long-Term Notes Payable, due after one year (Note C)	$14,320,000	$10,725,000
	Deferred Taxes on Income — arising from accelerated depreciation for tax purposes	$ 1,232,000	$ 961,000
	Stockholders' Investment (Notes C through E):		
	Capital Stock (at January 29, 1966):		
	Cumulative Preferred Stock, $100 par value, issuable in series, authorized 38,100 shares	$ —	$ 1,176,100
	Common Stock, without par value — authorized 3,000,000 shares, outstanding 2,677,886 shares, at stated value	8,947,133	8,795,882
	Additional paid-in capital	868,973	893,351
	Retained earnings	41,414,027	37,472,584
	Total Stockholders' Investment	$51,230,133	$48,337,917
		$86,769,407	$75,310,959

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

YEAR (52 weeks) ENDED JANUARY 29, 1966

(A) Investment Tax Credit:

The provision for federal income taxes for the year ended January 29, 1966, has been reduced by $402,000, which amount includes the entire investment tax credit for the current year plus a portion of the remaining investment tax credit for prior years.

(B) Deferred Income Taxes:

In accordance with the requirements of the Securities and Exchange Commission, deferred income taxes arising from the installment method of reporting income for tax purposes, although not due within one year, are classified as a current liability. Deferred taxes for the prior year were reclassified for comparative purposes.

(C) Long-Term Notes Payable:

At January 29, 1966, debenture notes payable included the following:

2.90%,	due annually 1966 to 1970	$ 700,000
4.25%,	due annually 1966 to 1975	$1,700,000
4.875%,	due annually 1966 to 1982	$3,920,000
4.60%,	due annually 1967 to 1983	$4,000,000
3.90%,	due $274,000 annually 1971 to 1979 with unpaid balance due in 1980	$4,000,000

The 3.90% notes are convertible into Common Stock of the Company at a conversion price of $50.00 per share through February 1, 1975 and at $57.50 per share thereafter through February 1, 1980. 80,000 shares of the authorized and unissued Common Stock have been reserved for issuance upon conversion.

Under agreements relating to long-term debt, at January 29, 1966, $8,400,000 of retained earnings was available for payment of cash dividends and acquisition by the Company of its capital stock.

(D) Additional Paid-In Capital:

Additional paid-in capital was reduced during the year by $24,378, the difference between the redemption or purchase price and par value of preferred stock redeemed or purchased during the year.

(E) Stock Options:

Of the authorized Common Stock, 118,620 shares are subject to issuance under the Company's stock option plans at market value at dates of grant. Ten-year options granted prior to August 25, 1964, at prices from $9.08 to $13.17, total 60,820 shares, of which 100 shares were exercisable at year-end. Five-year options, granted subsequently at prices from $41.00 to $43.00, total 23,600 shares, of which 4,720 shares were exercisable at year-end. During the year, options for 11,720 shares were exercised at prices from $9.08 to $13.17.

(F) Cost of Sales:

Costs and expenses are reported to the Securities and Exchange Commission in accordance with its requirements as follows:

	Year (52 weeks) Ended,	
	January 29, 1966	*January 30, 1965*
Cost of sales, including buying and occupancy costs	$ 91,082,748	$ 80,483,161
Selling, general and administrative expenses	26,732,253	23,388,847
Interest	653,488	502,782
	$118,468,489	$104,374,790

(G) Leases:

At January 29, 1966, the Company was lessee under warehouse and store leases expiring from 1971 to 2053, except the lease for Lenox Square parking area which expires in 2957, which provide for present aggregate minimum annual rentals of approximately $746,000 plus, in some instances, taxes, insurance and other expenses.

RICH'S INC. STATEMENT OF SOURCES AND USES OF FUNDS YEAR ENDED JANUARY 29, 1966

	Fifty-Two Weeks Ended January 29, 1966	*Fifty-Two Weeks Ended January 30, 1965*
Sources of Funds:		
Net earnings for year	$ 6,644,320	$5,627,574
Depreciation and amortization	2,189,889	1,859,848
Increase in deferred income taxes arising from accelerated depreciation	271,000	112,000
Funds provided by operations	$ 9,105,209	$7,599,422
Net gain from sale of property (special item)		820,842
Sale of common stock	151,251	122,548
Issuance of convertible debentures	4,000,000	
Decrease in cash and cash investments	157,200	
Increase in current liabilities	4,700,232	
Decrease in accounts receivable and other assets		479,638
	$18,113,892	$9,022,450
Uses of Funds:		
Increase in accounts receivable and other assets	$ 3,757,435	
Increase in merchandise inventories	2,836,782	$ 662,856
Increase in cash and cash investments		1,729,730
Decrease in current liabilities		914,675
Net additions to property and equipment	7,211,320	2,927,606
Acquisition of preferred stock	1,200,478	20,086
Reduction of long-term debt	405,000	325,000
Cash dividends paid	2,702,877	2,442,497
	$18,113,892	$9,022,450

Accountants' Report

Board of Directors,
Rich's, Inc.,
Atlanta, Georgia.

March 28, 1966.

We have examined the accompanying statement of financial condition of Rich's, Inc. as of January 29, 1966, the related statement of net earnings and retained earnings for the year (52 weeks) then ended, and the statement of sources and uses of funds. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Rich's, Inc. at January 29, 1966, and the results of its operations and the sources and uses of funds for the year (52 weeks) then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche, Ross, Bailey & Smart

Board of Directors

JOSEPH F. ASHER
HAROLD BROCKEY
LOUIS CARROL
R. HOWARD DOBBS, JR.
President, Life Insurance Company of Georgia
ALVIN M. FERST, JR.
BEN S. GILMER
Executive Vice-President American Telephone and Telegraph Company
JOSEPH K. HEYMAN
Senior Vice-President Trust Company of Georgia
A. CARL KOTCHIAN
Executive Vice-President Lockheed Aircraft Corporation
KENNETH P. MAGES
WALTER M. MITCHELL
Vice-President Draper Corporation
LOUIS MONTAG
Senior Partner, Montag and Caldwell
FRANK H. NEELY
RICHARD H. RICH
CECIL S. SEMPLE
PETER J. STELLING
OSCAR R. STRAUSS, JR.
Selig Manufacturing Company
ROBERT B. TROUTMAN, SR.
Senior Partner, King and Spalding
BENNETT F. TUCK, JR.
JOSEPH S. WATTERS

Corporate Officers

RICHARD H. RICH ..... *Chairman of the Board*
HAROLD BROCKEY ..... *President*
FRANK H. NEELY ..... *Chairman of Executive Committee*
JOSEPH F. ASHER ..... *Secretary*
KENNETH P. MAGES ..... *Financial Vice-President and Treasurer*
K. EDWARD DYE ..... *Assistant Secretary and Assistant Treasurer*

Operating Officers

LOUIS CARROL
Senior Vice-President and General Merchandise Manager
CECIL S. SEMPLE
Senior Vice-President in Charge of Operations
JOSEPH F. ASHER
Vice-President in Charge of Men's Store
ALVIN M. FERST, JR.
Vice-President and Superintendent of Plant Management and Construction
PETER J. STELLING
Vice-President in Charge of Fashion Store
BENNETT F. TUCK, JR.
Vice-President and General Superintendent
JOSEPH S. WATTERS
Vice-President in Charge of Store for Homes

Executive Committee

Frank H. Neely, Chairman
Richard H. Rich
Harold Brockey
Joseph F. Asher
Louis Carrol
Alvin M. Ferst, Jr.
Kenneth P. Mages
Cecil S. Semple

Salary Committee

Frank H. Neely, Chairman
Richard H. Rich
R. Howard Dobbs, Jr.
Walter M. Mitchell
Robert B. Troutman, Sr.

Finance and Audit Committee

R. Howard Dobbs, Jr.
Chairman
Joseph K. Heyman
Kenneth P. Mages
Walter M. Mitchell
Louis Montag

RICH'S LOOKS TO THE FUTURE

Downtown store

new addition

DOWNTOWN PROGRESS . . .

Rich's continued in 1965 in the business of operating department stores in the Metropolitan area of Atlanta. Rich's is the South's largest store, with its great downtown retailing center and five active branches. During 1965, an addition was completed to our downtown Self-Park Garage, providing total spaces for 1,250 cars, and on an average day's turnover, as many as 6,500 cars per day can be handled. This has greatly enhanced the attraction of shopping downtown, since parkers can enter the Store for Homes and reach all areas without going outside.

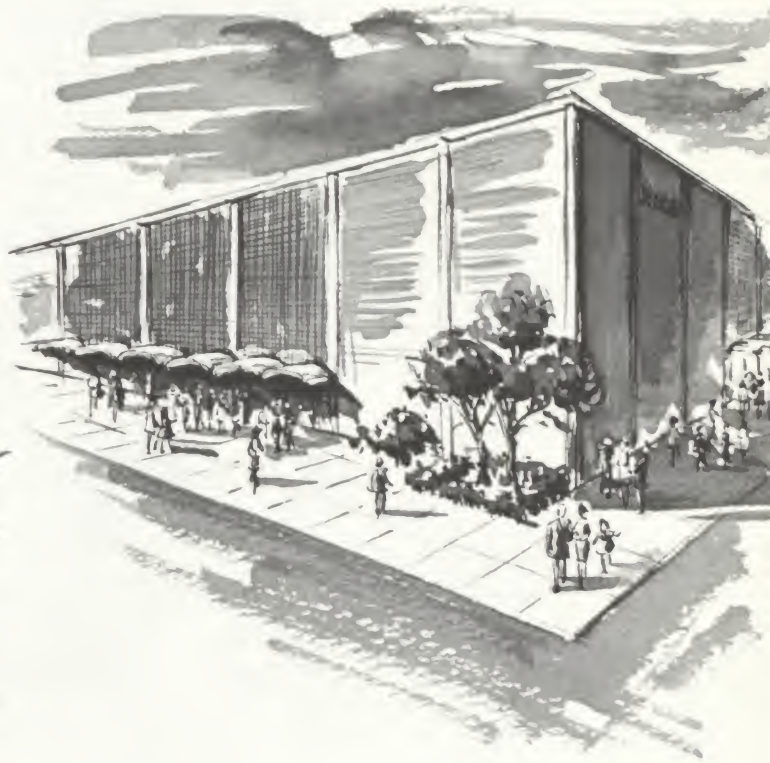
NEW ADDITION

Construction is underway on the six-story addition to the Service Building connected to the Store for Homes. This facility is being engineered and planned for a most efficient distribution center to service the 6 Rich's stores in the Metropolitan Atlanta area. The latest material-handling equipment will be provided to continue to give Rich's customers the fastest and most efficient service. The Spring Street facade with its impressive brick pattern forming vertical panels will provide a handsome addition to the Atlanta skyline. The building will have a set-back of approximately thirty feet from Spring Street, forming a pleasant landscaped plaza.

...AND CONTINUED GROWTH IN OUR SUBURBAN BRANCHES

Lenox

Our Lenox Square store, first of our branch stores, opened in 1959, has now become the state's second largest walk-in store in sales volume. This store, with 240,000 square feet of space, remains our largest branch store, and its growth has not been affected appreciably by the opening of other suburban stores. Its sustained growth continues to be very gratifying in our overall picture of progress.



Belvedere
The 2-story Belvedere Plaza store of 82,000 square feet has made steady progress in sales each year since its opening. Though the smallest of the suburban stores, it is stocked with a majority of Rich's assortments in every category, and continues to maintain steady growth and progress in spite of other retail competition which has been added to the area.

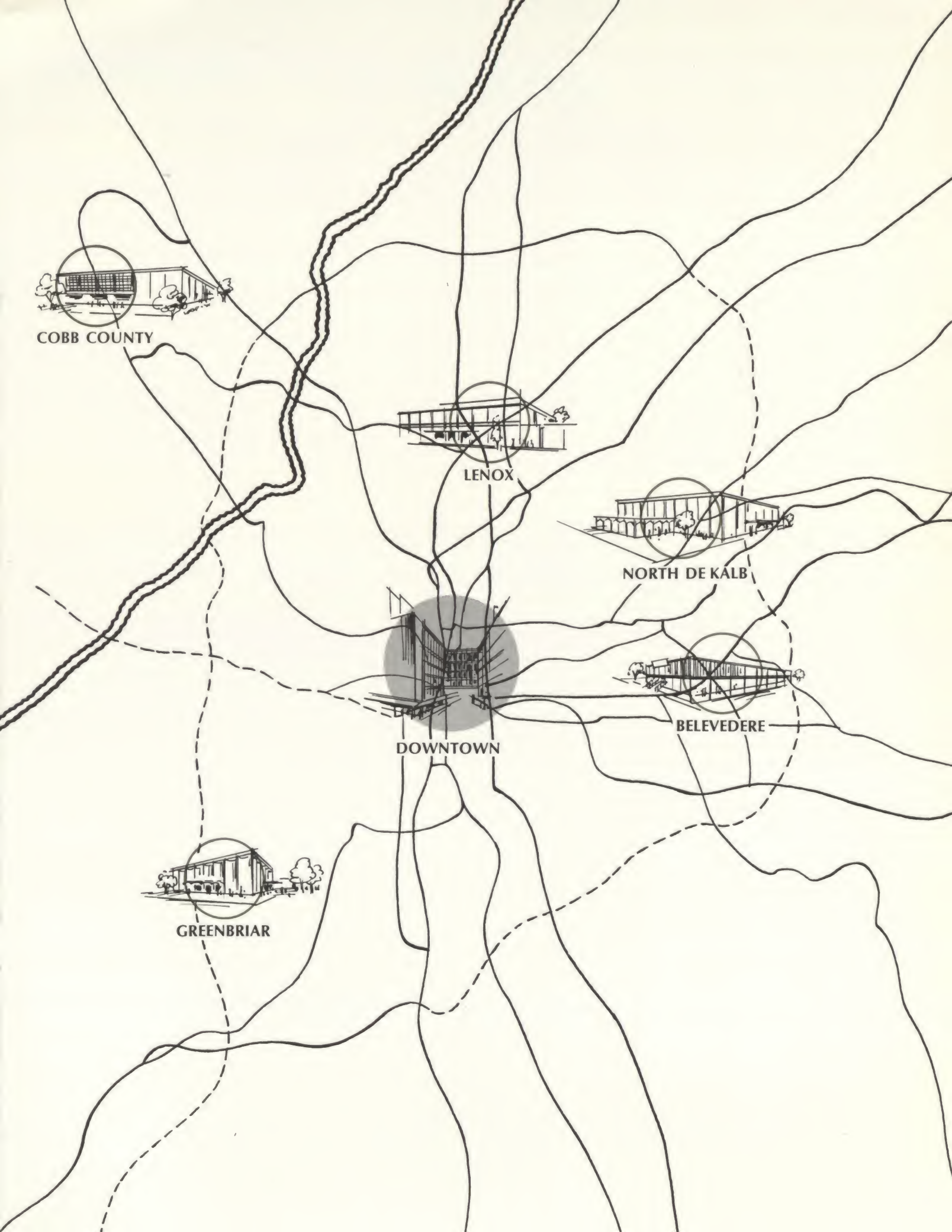
Cobb County
This, the third of our branches, opened in 1963 in an area where there was no major department store. It is 120,000 square feet in size and offers assortments from all of Rich's downtown departments. Rich's is the largest store in the Cobb County Center, and has continued to increase in sales since its opening. The center is the only regional shopping center for northwest Georgia, and our store, plus the parking area, is arranged for easy future expansion, when necessary.

North DeKalb

We own the land, building, fixtures and equipment of our beautiful North DeKalb store, consisting of a two-story building of 120,000 square feet and an attached budget, sports and appliance store of 40,000 square feet. This was the first of our stores to be located in a lovely, landscaped, entirely air-conditioned Mall, on the Lawrenceville Highway near North Druid Hills Road. Acceptance of this new store has been most gratifying and its sales volume has added greatly to our total progress.

Greenbriar

Our beautiful Greenbriar store, opened in fall of 1965, has had most appreciative acceptance in this area where there was no major retail outlet. It is a large 3-floor store of 160,000 square feet, surrounded by spacious parking areas on 3 sides with direct entrance into 2 levels of the store. The 4th side opens into the air-conditioned Mall which has a clear roof, giving the pleasant feeling of outdoors, while being completely weatherproofed. We are expecting even greater growth in this store which supplies the rapidly expanding market of southwest Atlanta.


COBB COUNTY
LENOX
NORTH DE KALB
DOWNTOWN
BELEVEDERE
GREENBRIAR